Politics & Economics Bulletin

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PETFORM

Turkey's consumer confidence slips in May

Anadolu Agency, *16.05.2018*

Confidence in the Turkish economy has dropped in May, according to the Turkish Statistical Institute (TurkStat) data.

The consumer confidence index slipped 2.8 percent, month-on-month, in May, the data shows. The index was 69.9 in May while it was 71.9 in April, TurkStat said. All sub-indices decreased on a monthly basis in May, the data showed. The probability-of-saving index saw the largest decline, suggesting less people expected to save money. The sub-index dropped 5 percent to 26.8 this month. Attitudes over the general economic outlook fell 4.2 percent, month-on-month, down from 94.7 to 90.8 in May.

Turkey's financial situation expectation of household index also saw a monthly decrease of 1.3 percent, at 89 in May. However, the number of people unemployed expectation index, which is a gauge of the health of the labor market, was down 2.2 to stand at 72.9 in the month. The index is calculated from the results of the consumer tendency survey carried out in cooperation with the TurkStat and Turkish Central Bank.

Borsa Istanbul shows confidence in Turkish lira

Anadolu Agency, *23.05.2018*

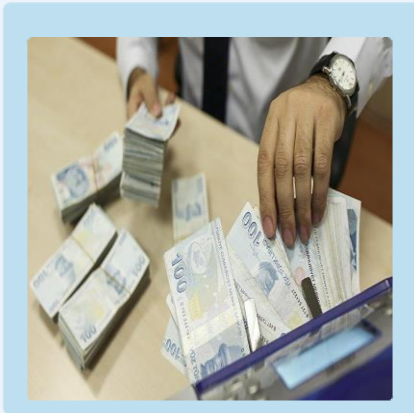
The Borsa Istanbul Group announced on Wednesday that it converted all its foreign exchange assets, excluding short terms needs, into Turkish lira.

"It is seen that speculative approaches for showing Turkish economy as negative before elections [on June 24] are not backed by current indicators. As Borsa Istanbul we would like to reemphasis our commitment and confidence to Turkish economy and lira," it said in a statement. The move came after U.S. dollar/Turkish lira exchange rate saw a historic high, climbing over 4.7500 at Wednesday's market opening.

Turkey's sole stock exchange group said the decision was taken while considering that among financial tables of all sectors and companies, there is no economic data that shows a necessity for such high levels of foreign exchange rates. Emerging markets' local currencies have been weakening against the U.S. dollar since the beginning of this year. The U.S. dollar gained around 26 percent against Turkish lira, nearly 24 percent against Argentine peso, almost 11 percent against Brazil real, more than 7 percent against Russian ruble and around 6 percent against Indian rupee.The U.S. dollar/Turkish lira rate was at 3.78 at the beginning of this year while last year one U.S. dollar traded for 3.65 lira on average.

Turkey's economic management team meet to discuss economy as lira plunges

Hurriyet Daily News, *23.05.2018*



The Turkish government's economic management team met at the beginning of this week to discuss potential measures, including possible steps by the Central Bank.

Deputy Prime Minister Mehmet Şimşek and Central Bank governor Murat Çetinkaya also attended the meeting on May 21, according to the officials. The meeting came after rising concerns about the monetary policy and a greenback rally, as the Turkish Lira has been gripped by a sell-off. Over the week, the top mover in the currency market was the lira, which fell more than two percent early on May 23 to a record low of 4.8450 after rating agencies sounded the alarm.

Turkish Central Bank takes another step for FX market

Anadolu Agency, *24.05.2018*

Bank raises maximum total amount of forward foreign exchange sale position from $6.15B to $8B. The Turkish Central Bank on Thursday raised the upper limit of its forward foreign exchange sale position for the second quarter of this year.

"The calendar for Turkish lira-settled forward foreign exchange sale auctions to be held in the second quarter of 2018 is updated," the bank said. "During this period, the maximum total amount of forward foreign exchange sale position may increase.

"The upper limit for the total amount of forward foreign exchange sale position is determined to be $10 billion until end-2018." The bank's move followed the action of hiking interest rates on Wednesday, in line with its tight monetary policy stance to improve the inflation outlook. On Wednesday, the bank hiked late liquidity window interest rates, as the borrowing rate was kept at 0 percent while the lending rate was raised from 13.50 to 16.50 percent. In recent months the Turkish lira has been losing ground to the U.S. dollar. The USD/TRY rate has risen nearly 20 percent since the beginning of this year.

The dollar/lira rate hit an all-time high -- reaching 4.93 -- just before the bank raised rates, versus last year, when one dollar traded for 3.65 lira on average. On Thursday, the U.S. dollar/Turkish lira exchange rate stood at 4.7580 by market close, down from 4.8390 at the previous close.

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Russia is out to prove that 'doomsday' forecasts of economic collapse have failed

Anadolu Agency, *21.05.2018*

Russia is preparing to welcome leaders and executives from the world of business and economics but this year's St. Petersburg International Economic Forum (SPIEF) comes at a time when the country's international relations are more unstable than ever.

Nonetheless, investors and market watchers will focus on the forum if only to hear what Russian President Vladimir Putin — who will attend and speak at the event — and other high-profile ministers, economists and business leaders have to say about the country. This year, speakers include French President Emmanuel Macron and Japanese Prime Minister.

Russia's relations with its western neighbors are at a low ebb, with its support for the authoritarian regime in Syria, a suspected Russian-directed nerve agent attack on U.K. soil and likely meddling in elections in the U.S. causing controversy and prompting suspicion among many members of the international community. Moscow denies having any part in the U.K. attack or political interference. The country remains under continuing sanctions for its annexation of Crimea in 2014 and its perceived support for a pro-Russian uprising in eastern Ukraine in the same year. Still, SPIEF is an opportunity for Putin and other business leaders to tell the world that the Russian economy is "currently in very good shape," as the chief executive of Russia's $10 billion sovereign wealth fund told CNBC. "The doomsday predictions of Russia's international isolation or collapse of the Russian economy have failed. The economy has adapted itself to sanctions," Kirill Dmitriev, the head of the Russia Direct Investment Fund (RDIF) said via email.

"The inflation rate is at a record low of 2.4 percent year-on-year in April 2018 due to a prudent macroeconomic policy of the central bank and the government. The current inflation target is set by the central bank at 4 percent. The ruble exchange rate is stable while the central bank is in a rate-cutting cycle with the key rate at 7.25 percent." He insisted that the current macroeconomic environment is creating "excellent conditions for the 'investment breakthrough' needed to sustain growth in the coming years." Russia certainly appears to have weathered the storm prompted by international sanctions, having boosted its domestic economy due to import substitution, raising some awkward questions for the West over how effective sanctions can be in the long run. In April too, the U.S. imposed more sanctions on a list of Russian government officials and oligarchs, and related companies, in retaliation for what it called "malign activity around the globe."

After shrinking in 2015 and 2016 amid the penalties and the slump in oil prices, Russia's economy grew 1.5 percent in 2017. The Kremlin is also hoping for a boost from the World Cup soccer tournament being held in Russia in June. There's no doubt that the economy has been through a rough ride, however, and the outlook remains uncertain given a reliance on its export-orientated commodity sector. At least oil prices are on the rise, in large part thanks to Russia joining with OPEC producers in curbing production in a bid to balance supply and demand. From a slump to around $27 a barrel in 2016, Brent crude is now fetching around $79 a barrel. RDIF's Dmitriev said the production cuts agreed with other oil-producing countries had "stabilized" oil markets and the price increase had brought an additional 3 trillion rubles ($49 billion) to the Russian state budget.

Not everyone thinks Russia's prospects are so rosy. "In the short-term, the economy is still in recovery phase," Neil Shearing, chief emerging markets economist at Capital Economics, told CNBC via email. "My main concerns are about the medium-term outlook," Shearing said, noting that what he called the "dire rate" of productivity growth "reflects manifold problems, from a low investment rate and an increasingly statist economic policy, to a rigid labor market and financing constraints on SMEs (small and medium-sized enterprises)." Ahead of his fourth re-election as president in March, Putin pledged to increase public spending on health care and infrastructure in a bid to revamp the economy. But Barclays Capital Economist Liza Ermolenko told CNBC that it was hard to see how a spending spree could result in "much more than a temporary boost to growth." "It is difficult to see how the government could revamp Russia's entire growth model in the environment of poor demographics and the ongoing shift to an autarchic (self-sufficient) system," she said. Another expert on Russia said the government, which has talked a good talk about diversifying its economy away from oil, could squander the chance to make reforms.

"There is a high probability that the Kremlin will once again fail to use economic recovery and benign economic conditions to enact long delayed reforms and shifting away from hydrocarbon dependency," Daragh McDowell, principal Russia analyst at Verisk Maplecroft, told CNBC on Monday. "The reveal of premier Medvedev's cabinet last week strongly indicated the Kremlin is committed to continuing to muddle through, rather than enact serious reform." McDowell forecast "continued, mediocre growth" in the region of 1.5 to 3 percent per annum over the next three to five years. Capital Economics' Shearing was also cautious on growth prospects: "Growth over the long run will be stuck at around 1.5-2.0 percent or so, making Russia the worst performing major emerging market," he said.

EU launches package to counter US sanctions on Iran

Financial Times, *19.05.2018*

The EU announced a package of measures on Friday to counter US sanctions on Iran, setting up a potential new conflict with Washington as Europe fights to save a landmark nuclear deal with Tehran.

The plans unveiled by the European Commission include enabling its member states to make direct payments for oil to Iran's central bank and the revival of a 1990s era so-called "blocking statute" to allow companies to ignore US sanctions without fear of punishment in Europe. The EU's moves defy US wishes for it to comply with Washington's relaunch of measures against Iran.

But analysts say there will be limits to the effectiveness of the Brussels response, and European leaders, including French president Emmanuel Macron, have said they do not want a trade war with the US over Iran. "As long as the Iranians respect their commitments, the EU will, of course, stick to the agreement of which it was an architect," said Jean-Claude Juncker, European Commission president. "But the American sanctions will not be without effect. So we have the duty, the commission and the European Union, to do what we can to protect our European businesses, especially SMEs." Ensuring Iran is still able to reap the economic benefits of the nuclear agreement is deemed critical to keeping the deal alive. Under the accord, which was signed by the US, the EU, France, Germany, the UK, China and Russia, Iran agreed to scale back its nuclear activities in return for many western sanctions being lifted.

It enabled Tehran to more than double its oil exports, which helped lift the country out of a deep recession. Mike Pompeo, US secretary of state, who has held talks with his European counterparts, is due to present a diplomatic plan on the way forward for Washington and Europe on Iran in a foreign policy address on Monday. Brian Hook, a senior state department official, said the plan aimed at achieving "a new security architecture and a better security framework, a better deal" to replace the existing accord. "We very much want a diplomatic outcome," Mr Hook said. "One that is going to increase the security of the American people." A person familiar with the Trump administration's thinking said the EU's measures were "grandstanding". "The economic logic is going to determine what these companies do," the person said. "Corporations have already made their decisions." Previously when major non-US companies have had to choose between complying with the EU blocking statute or complying with US sanctions they have chosen the US sanctions almost every single time Jason Hungerford, Norton Rose Fulbright LLP The European Commission said it was encouraging the EU's 28 members to "explore the possibility of one-off bank transfers to the Central Bank of Iran".

This could enable Tehran to receive oil-related revenues, particularly if US sanctions targeted EU entities active in oil transactions with Iran, it added. The blocking statute — which will be based on a 1996 measure developed in response to US sanctions on Iran, Libya and Cuba — will forbid EU companies from complying with the extraterritorial effects of US sanctions, the commission said. It will stop EU courts enforcing US sanctions judgments and will also allow companies to recover “damages arising from such sanctions from the person causing them”.

The commission will also push ahead with measures aimed mainly at supporting small and medium-sized companies, including freeing up the European Investment Bank to offer euro credit lines to avoid sanctions on the dollar. US sanctions are due to reactivate 90 or 180 days after Washington’s withdrawal from the nuclear deal. European diplomats are aware that its countermeasures may have limited impact in protecting and persuading multinational companies, which face the threat of fines, bars on doing business and even criminal prosecution in the US, to remain in Iran. Total, the French oil company and the largest foreign in investor in Iran’s energy sector, said this week it would be forced to stop work on the South Pars gasfield unless Washington granted a specific waiver for the project. Oil traders said the direct payments to Iran’s central bank could potentially be effective for smaller European refiners that do not have a large international presence or much exposure to the US. But they raised questions about how effective or applicable the EU plan might be for companies and traders with a more global footprint. The biggest trading companies have operations in the US that are far more important to their businesses than their dealings with Iran, leading them to be ultra cautious in their approach, company executives said on Friday. They said that traders would prioritise adherence with the US sanctions over anything the EU might offer.

Jason Hungerford, a partner at Norton Rose Fulbright LLP, said he expected most international companies to continue to prioritise complying with the US despite the EU’s efforts: “Previously when major non-US companies have had to choose between complying with the EU blocking statute or complying with US sanctions they have chosen the US sanctions almost every single time,” he said. The EU has also refrained from a more aggressive response involving possible retaliation against US companies. European diplomats recognise their limited leverage and are nervous about provoking Washington further at a time of fast-deteriorating transatlantic relations, including over threatened US steel and aluminium tariffs. Mr Macron said on Thursday that France had no wish to target US companies, nor force French companies to stay in Iran if they wanted to pull out. “The French president is not the CEO of Total,” he said.

EU says Italy must deliver ‘credible’ response to debt problem

Agence France, *23.05.2018*

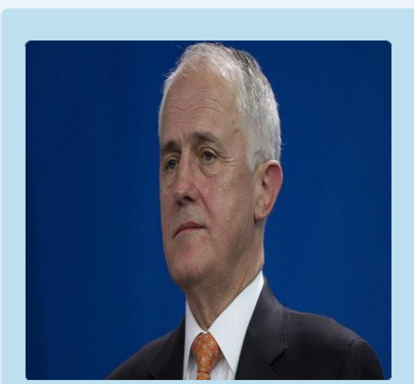
The European Union warned on May 23 that Italy must reduce spending to cut down its enormous debt pile in a direct challenge to the eurosceptic and populist government set to take office in Rome.

“The Italian debt is an important question for Italy’s future (...) This requires a credible answer,” said EU Economic Affairs Commissioner. The incoming coalition in Italy, a founder member of both the EU and the euro, has irked financial markets and European governments amid its loud refusals to stick to public spending and debt targets set by Brussels.

“Our political message is very clear. Italy needs to continue to reduce its public debt which is indeed second highest in EU after Greece,” said European Vice President Valdis Dombrovskis, the bloc’s enforcer for the euro. The third largest economy in the eurozone, Italy is weighed down by 2.3 trillion euros ($2.7 trillion) of public debt. This is 132 percent of its gross domestic product (GDP), the highest ratio anywhere in Europe apart from Greece and far from the EU cap of 60 percent of GDP.

Australia welcomes opening of EU free trade deal talks

Anadolu Agency, *23.05.2018*



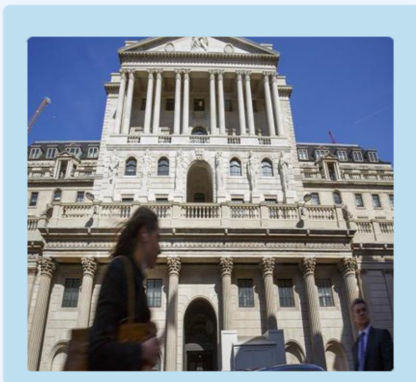
Australia welcomes EU leaders' green light to open negotiations to create an Australia-EU free trade agreement, Prime Minister Malcolm Turnbull said on Wednesday.

"The Turnbull Government will seek an ambitious and comprehensive Free Trade Agreement (FTA) to drive Australian exports, economic growth and create new Australian jobs. "We will be working to secure better access for Australian food and agriculture products, creating the framework for open, fair and equitable trade," Turnbull said in a statement.

His remarks came a day after the Council of EU, the main decision-making body of the union, adopted the negotiating directives for free trade agreements with Australia and New Zealand. Turnbull also said he wants to meet EU Trade Commissioner Cecilia Malmstrom in Australia in June to formally launch talks. "As a bloc, the EU is Australia's second-largest trading partner; third-largest export destination; and second-largest services export market. The EU was Australia's largest source of foreign investment in 2017," he added.

UK inflation slows to 2.4 pct

Anadolu Agency, *23.05.2018*



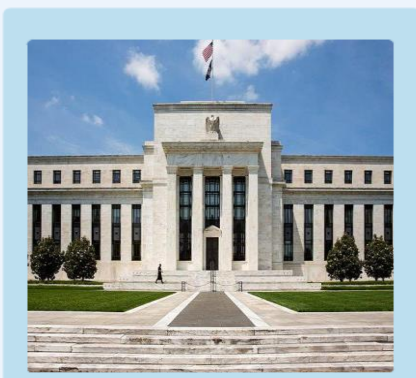
Annual inflation in Britain was 2.4 percent in April, down from 2.5 percent in March, the Office of National Statistics (ONS) announced Wednesday.

April's consumer price index (CPI) 12-month rate of 2.4 percent is the lowest level since March 2017. The largest downward factor in the change came from airfares, with rising motor fuel prices having the biggest upward effect. "Inflation continued to slow in April, with airfares making the biggest downward contribution, due to the timing of Easter. This was partially offset by the rise in petrol prices."

The Bank of England (BoE) targets a slowdown in inflation to 2.0 percent.

Federal Reserve signals next rate hike coming in June

Washington Post, *24.05.2018*



U.S. central bankers are likely to raise the key interest rate "soon," the Federal Reserve said , a clear signal of a rate hike coming next month, as financial markets expect.

Fed officials cited the strength of the economy, and solid hiring trends, as well as the fact inflation had inched higher at long last. However, the Fed will continue to move only gradually, even if inflation rises "modestly" above its two percent target - as long as that increase is only "temporary" - according to the minutes of the May 1-2 meeting of the policy-setting Federal Open Market Committee.

“Most participants” at the meeting agreed that if the economy continued to perform as expected “it would likely soon be appropriate for the committee to take another step,” the minutes said. The Fed last raised the benchmark federal funds rate in March, the sixth increase since December 2015, to a range of 1.5-1.75 percent. It is expected to hike at least twice more this year but markets have been watching closely for signs the FOMC might be more aggressive in combatting inflation, which has finally picked up to about two percent after languishing for months well below that level. Kathy Bostjancic of Oxford Economics is among those expecting three more rate hikes this year.

She said the minutes revealed “as expected that Fed officials overall are more optimistic about the near-term trajectory of the economy.” While more economists agree with Bostjancic that three more hikes are likely, the Fed’s median forecast was for two more - although it was very close. And the minutes said there were “a range of views” among FOMC participants about how many more times the Fed would have to raise interest rates. A key factor will be how prices and wages behave, but the minutes tamped down concerns the Fed would react aggressively if inflation nudges above the two percent target. The minutes confirm the widespread interpretation of the May 2 statement that twice highlighted the fact the Fed’s inflation target is “symmetric” - meaning the actual rate can be a little above or below. Officials noted that even though the rate had at long last reached two percent, it was “premature to conclude” that inflation would remain at the target level, given that prices had remained stubbornly subdued in recent years.

And although some said inflation was likely to “modestly overshoot” the target, “a temporary period of inflation modestly above two percent would be consistent with the committee’s symmetric inflation objective,” the minutes said. In fact, a period a bit above two percent “could be helpful” in solidifying expectations that some price increases are on the way - a process central bankers call “anchoring” inflation expectations. That is important in monetary policy since expectations that prices will fall can sap economic activity. Chris Low of FTN Financial said despite some difference of opinion on the trajectory of prices, “no one is concerned about a significant or lasting overshoot.” While they generally expect “above-trend economic growth,” Fed officials noted “a number of risks and uncertainties” about the outlook. That includes labor shortages that could constrain some industries and pressure wages and prices higher, as well President Donald Trump’s trade policies. While the minutes noted that the impact of trade policies would depend on US actions and the reaction of trading partners, “the uncertainty surrounding trade issues could damp business sentiment and spending.” The Fed has mentioned trade uncertainty several times in recent statements, given the potential for undermining business investment as Trump officials negotiate with China to head off a possible trade war. Trump has imposed steep tariffs on steel and aluminum and the Fed noted rising costs for those and other inputs for US businesses, as well as the potential for higher Chinese tariffs on US agricultural goods, to “hurt US competitiveness.” In addition, rising oil prices, if they remain high, could fuel US price increases directly, the Fed said. Wall Street, which greeted the news warmly, closed modestly higher with the tech-heavy Nasdaq leading the way with a gain of 0.6 percent.

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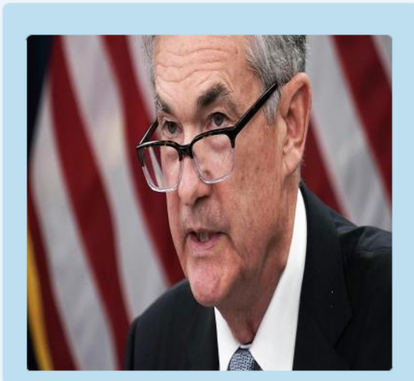
Fed indicates it will let inflation run above 2 percent goal for 'temporary period'

CNBC, *16.05.2018*



Federal Reserve officials would be content to let inflation briefly run above their 2 percent target as the economy continues to recover, according to minutes from the central bank's most recent meeting.

Following the May 1-2 session, the policymaking Federal Open Market Committee said it wasn't raising rates yet but added the word "symmetric" to describe its inflation goal. Market participants since have puzzled over what the change in language might imply. Substantial level of debate over how the Fed should approach inflation.

The minutes also pointed to an interest rate hike at the June meeting amid debate over how close the Fed might be getting to the end of this rate-hiking cycle. While the general sentiment was that inflation would continue to rise toward the 2 percent target, there was disagreement over how confident the Fed should be after years of undershooting, and what that would mean to policy. However, there seemed to be agreement that after years of subpar growth and low inflation, allowing the economy to rev up a little would be appropriate. "A few participants commented that recent news on inflation, against a background of continued prospects for a solid pace of economic growth, supported the view that inflation on a 12-month basis would likely move slightly above the Committee's 2 percent objective for a time," the minutes said. "It was also noted that a temporary period of inflation modestly above 2 percent would be consistent with the Committee's symmetric inflation objective and could be helpful in anchoring longer-run inflation expectations at a level consistent with that objective."

"Symmetric" was mentioned at least nine times in the minutes. The Fed's preferred inflation gauge, the core personal consumption expenditures index, currently is at 1.9 percent, while the headline rate including energy and food prices is at 2 percent. Fed officials described wage pressures as "moderate" though it noted there has been more pressure in industries where labor supply is tightening. Fed officials see 2 percent inflation as a level that sustains economic growth without putting too much upward pressure on prices. After seven years of keeping its benchmark interest rate near zero, the FOMC began raising rates in December 2015, with the current target range at 1.5 percent to 1.75 percent. As the economy has seen growth above its recovery trend and inflation inches its way toward the Fed's goal, market participants have been speculating on how quickly the Fed will continue to hike and when it will stop. A few members stated that the Fed is getting close to its "neutral" goal of setting a rate that is neither constrictive nor overly expansionary to growth. Though Fed officials indicated in March that a total of three rate hikes this year were likely, traders in the fed funds futures market in recent days briefly put chances of a fourth hike above 50 percent. That probability has since declined to about 43 percent. The minutes indicate that central bank officials remain determined to keep increasing rates, but with the gradual approach that it has repeatedly pledged to take.

"Most participants judged that if incoming information broadly confirmed their current economic outlook, it would likely soon be appropriate for the Committee to take another step in removing policy accommodation," the minutes said in an indication that another hike is likely soon. Markets already had been pricing in a 95 percent chance of a quarter-point move at the June FOMC session, followed by another increase in September. The Fed's rate is tied closely to most forms of consumer debt. Along with the approach to inflation, some Fed officials also suggested that changes will be coming to what has become boilerplate language in post-meeting statements. Specifically, those members said that as rate hikes continue, adjustments may have to be made to phrasing that the "federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run" and another phrase that for years has said "the stance of monetary policy remains accommodative." However, the minutes also noted that members "expressed a range of views" on how policy should proceed.

On the economy, committee members said their opinions had changed little as they expect continued progress despite some signs of softening in the first quarter. There was concern expressed over trade and fiscal issues, with Fed business contacts expressing "concern about the possible adverse effects of tariffs and trade restrictions, including the potential for postponing or pulling back on capital spending." The outlook otherwise was positive. "They noted a number of economic fundamentals were currently supporting continued above-trend economic growth; these included a strong labor market, federal tax and spending policies, high levels of household and business confidence, favorable financial conditions, and strong economic growth abroad," the minutes said. As things progress, "further gradual increases" in rates would be possible without disrupting the recovery and while sustaining the "symmetric" inflation goal.

US-China trade agreements are 'face-saving' and 'lose-lose,' says Moody's chief economist

CNBC, *21.05.2018*

Triumphant tones coming from the White House over the weekend are inconsequential, Moody's chief economist said Monday, deflating hopes that the U.S. is gaining major ground in its negotiations with China aimed at averting a trade war.

"I think it's a lose-lose. There are no winners here," Mark Zandi told CNBC's "Squawk Box Europe" on Monday. "This is face-saving, because clearly they're not going come to terms on anything — at least, not in the near-team." Zandi was referring to Treasury Secretary Steven Mnuchin's announcement Sunday that a looming trade war.

It was "on hold" as the world's two largest economies agreed to drop their tariff threats and discuss parameters for a wider trade agreement. China consented to continue discussing measures under which it would purchase more U.S. products in order to reduce the $335 billion annual trade deficit between the two, but no specific dollar number was put forward. Zandi pointed to this as evidence that neither Washington nor Beijing had a plan, nor did either know what it specifically was they wanted from the ongoing talks. "When you get right down to it, what exactly are they going to do? Are they going lower the Chinese-U.S. bilateral trade deficit? It's just not going to happen. They're kicking it down the road because they really don't know what they want," Zandi said. President Donald Trump had initially set out a demand that China close its trade surplus by $200 billion, to which Beijing has not acquiesced. Zandi criticized this figure, noting that U.S. exports to China are currently $150 billion annually, and that it doesn't have the capacity to produce and export that scale of increase in goods to China.

"What's that going to buy? For $200 billion?" the economist asked. "We don't want to sell them technology, where our comparative advantage is, so we're going to sell them $200 billion more of what? Soybeans? Boeing aircraft?" Trade experts have argued that Chinese demand for these U.S. products will not sufficiently increase to the point where it would need to purchase such a volume of American goods. Zandi added that the discussions should have instead been focused on structural issues like intellectual property (IP) protection for investors, echoing the sentiment of many economists that the trade deficit figure should not be the focus of the U.S.-China trade relationship. "America wants the Chinese to buy $200 billion more of what America produces, but it's neither here nor there when it comes to protecting IP rights, which is really what we should be focused on here," he said. "I think it's a silly debate argument that is going to end up nowhere."

Other experts have warned that a deal with China focused on a dollar figure for trade is not a sustainable solution in the long term. Frank Lavin, a former U.S. under-secretary of commerce for international trade, told CNBC on Monday that a narrow focus on the trade imbalance misses the more pertinent issues at hand. "If they (China) give you a check, watch out. They're sort of buying you off and getting you just to go away for that money, so be careful of that," Lavin said. "I'd say focus more on structural changes, getting market opening, fair treatment, level playing field, IP (intellectual property) issues, investment protection." U.S. Trade Representative Robert Lighthizer made this point Sunday, saying in a statement: "Real structural change is necessary. Nothing less than the future of tens of millions of American jobs is at stake."

Administration officials, meanwhile, touted the progress as a positive for the U.S., and markets have reacted positively to the news. Chinese Vice Premier Liu He described the talks as "pragmatic, fruitful and efficient," a marked shift from more negative sentiment earlier in the week that led Trump to say Thursday that he "doubted" the trade negotiations would succeed. A joint statement from the weekend's meetings said: "To meet the growing consumption needs of the Chinese people and the need for high-quality economic development, China will significantly increase purchases of United States goods and services." The purchase increases are said to be predominantly in the agricultural and energy sectors. Talks between U.S. and Chinese officials have been underway in recent weeks following a rapid escalation in tensions between the two economic powerhouses. Trump has long criticized China's growing trade surplus with the U.S., and in March set off a trade spat by proposing import tariffs on a number of Chinese goods. The move set off a tit-for-tat dispute with a series of threats from each country that proposed hundreds of billions of dollars worth of tariffs on each other's goods, sparking fears of a global trade war.

China can’t cut its trade gap by $200 billion

Bloomberg, *18.05.2018*

The great thing about large numbers is they can get so huge that you can bamboozle people by chucking them around.

That’s the best way to view Beijing’s reported offer to reduce its trade surplus with the U.S. by $200 billion (the country's foreign ministry cast doubt Friday on whether such a proposal had been made). In the context of economies with a combined gross domestic product in the region of $30 trillion, it looks like a rounding error. The trouble comes when you try to work out where the reduction will come from. Consider, for instance, that the U.S. exported $154 billion of goods to China in 2017, and imported from it $431 billion.

Taking $200 billion off that deficit would involve either more than doubling U.S. exports, almost halving its imports, or some combination of the two. To be sure, there are some trade categories that have seen spectacular growth in recent years. China is scouring the world to feed its voracious energy demands, and the U.S. began exports of crude oil and liquefied natural gas only in the past few years. The U.S. was the fastest-growing major crude exporter to China last year, with a 1,476 percent improvement on 2016 that saw its volumes leapfrog those of Malaysia. Strengthening consumption and flatlining output from domestic fields is likely to continue pushing up China’s oil imports, with the International Energy Agency estimating that demand will increase by about 2 million barrels a day by 2023, equivalent to about a fifth of U.S. output. It’s a similar story with natural gas. Long a laggard in methane consumption, China is fast turning into the big beast of the global liquefied natural gas market, with import volumes doubling over the past two years. That trend is only getting started: Domestic gas prices rallied as much as 32 percent in the past three weeks, a remarkable indicator of supply tightness given it’s almost summer.

LNG consumption will rise by 23 percent a year from 2016 to 2020, taking imports to 61.2 million metric tons annually from 26.2 million tons in 2016, according to Wood Mackenzie, a consultancy. Total regasification capacity will rise to more than 100 million tons a year in 2022, at a time when U.S. liquefaction capacity will be approaching 70 million tons a year, according to the International Gas Union. The trouble is, that will barely move the needle. Let’s assume for the sake of argument that the U.S. supplies every additional barrel of oil consumed by China between now and 2020. The additional 400 million-odd barrels, at mid-2020 Brent futures prices of around $70 a barrel, gets us $28 billion closer to Beijing’s $200 billion target. Assume that the U.S. supplies every additional ton of LNG under Wood Mackenzie’s estimates at current import prices of $500 a ton 1 and you can add another $17.5 billion. Even doubling prices for each commodity gets less than halfway to $200 billion.

There's nothing else out there that can make the numbers stack up. Even if the U.S. were to increase exports of every billion-dollar trade category to its maximum level of the past decade, that would still chip only $23 billion more from the total. As Council of Foreign Relations senior fellow Brad Setser pointed out on Twitter, a reclassification of semiconductor exports to Hong Kong would result in an easy win, given they're mostly re-exported to mainland China – but beyond that there's little that can have a major impact. With the threat of a trade war looming, it's tempting to take whatever we can get to avert the self-destructive course the world is now on – whether it's a cut in auto tariffs that won't really help U.S. auto companies, a Chinese government loan to a Trump-connected resort development, or the promise of some unlikely trade number in the unspecified future. Just don't expect these fantasy league numbers to be translated into reality any time soon.

China to cut auto tariffs on July 1 as trade tensions ease

Agence France, *22.05.2018*

China announced on May 22 that it would cut tariffs on auto imports from July 1, the latest sign of a thaw in trade frictions with the United States.

Beijing has announced a flurry of trade liberalizations and reforms since coming under fire from the Trump administration and some European politicians for its protectionist policies. The planned reduction in import duties from 25 percent to 15 percent is a boon for international automakers but may fall short of fulfilling U.S. President Donald Trump's expectations that Beijing match US tariffs of 2.5 percent.

Demands reportedly put to China by the United States at the start of trade talks called on it to lower all tariffs to at least match those of the US. Trump has been following the issue closely and on Monday tweeted, "On China, Barriers and Tariffs to come down for first time."

The announcement in Beijing came days after Vice Premier Liu He and U.S. Treasury Secretary Steve Mnuchin led negotiations in Washington which ended with an agreement to pull back from the brink of a trade war. The two sides agreed to refrain from imposing tariffs threatened on billions of dollars' worth of goods that would have dented U.S.-China trade. But the Trump administration has been split on the issue, with some members of the negotiating team saying the tariffs could still be imposed.

On May 22 China's foreign ministry spokesman Lu Kang said the U.S. would send a high-level delegation to China to hold "detailed conversations" at an unspecified date. President Xi Jinping announced in April that China would "considerably lower" tariffs on cars by the end of the year as part of a range of measures seen as an olive branch to Trump. The cut to 15 percent will likely be welcomed by automakers selling cars in China, with Toyota importing its Lexus brand and American giant Ford shipping in most of its Lincolns. The announcement also included a lowering of import duties on many types of auto parts. Earlier this year China also announced plans to liberalize foreign ownership limits which had forced most foreign carmakers into joint ventures with state-owned companies. China currently restricts foreign auto firms to a maximum 50 percent ownership of such joint ventures. The changes will scrap shareholding limits for new-energy vehicle firms as soon as this year, followed by commercial vehicles in 2020 and passenger cars in 2022.

Announcements & Reports

► *Capacity mechanisms in EU Law: A comment on the free movement of goods*

Source : OIES
Weblink : https://www.oxfordenergy.org/publications/capacity-mechanisms-eu-law-comment-free-movement-goods/final.pdf

► *Russia's New State Armament Programme*

Source : Chatham House
Weblink : https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2018-05-10-russia-state-armament-programme-connolly-boulegue.pdf

Upcoming Events

► *Iraq's Future: Elections, Corruption and the Struggle for a State*

Date : 30 May 2018
Place : London
Website : https://www.chathamhouse.org/event/iraq-s-future-elections-corruption-and-struggle-state

► *Should Debt in the Developing World be Cancelled?*

Date : 31 May 2018
Place : London
Website : https://www.chathamhouse.org/event/should-debt-developing-world-be-cancelled

► *Fossil Fuels Expert Roundtable: How Solar is Shaping the Energy Transition*

Date : 01 June 2018
Place : London
Website : https://www.chathamhouse.org/event/fossil-fuels-expert-roundtable-how-solar-shaping-energy-transition

► *Argentina: Political Change and the G20 Presidency*

Date : 05 June 2018
Place : London
Website : https://www.chathamhouse.org/event/argentina-political-change-and-g20-presidency

► Cyber 2018

Date : 28 June 2018
Place : London
Website : https://www.chathamhouse.org/conferences/cyber-2018

► Fighting Financial Crime 2018

Date : 10 September 2018
Place : London
Website : https://www.chathamhouse.org/conferences/fighting-financial-crime-2018

► Illicit Financial Flows 2018

Date : 01 October 2018
Place : London
Website : https://www.chathamhouse.org/conferences/illicit-financial-flows-2018

► Climate Change 2018

Date : 15 October 2018
Place : London
Website : https://www.chathamhouse.org/conferences/climate-change-2018

► Climate Change 2018

Date : 15 October 2018
Place : London
Website : https://www.chathamhouse.org/conferences/climate-change-2018

► Global Trade 2018

Date : 01 November 2018
Place : London
Website : https://www.chathamhouse.org/conferences/global-trade-2018